

Message Text

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12

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 AID-20 CIAE-00 FRB-03

INR-11 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-03 LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08

CEA-02 PA-04 PRS-01 USIA-15 AGR-20 DRC-01 /194 W

----- 056044

R 061723Z SEP 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3674

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGSC ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS-WEEK ENDING SEPTEMBER 6

BEGIN SUMMARY: THE POUND FELL TO \$2.3105 ON TUESDAY (SEPT.

3), ROSE TO \$2.3140 ON WEDNESDAY, BUT FELL BACK TO \$2.3110

ON THURSDAY TO CLOSE 65 POINTS DOWN ON LAST THURSDAY'S

CLOSE. THE EFFECTIVE DEVALUATION WIDENED TO 18.1 PERCENT

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ON TUESDAY (SEPT. 3) BUT NARROWED TO 17.9 PERCENT ON

THURSDAY, UNCHANGED FROM A WEEK AGO. GOLD ROSE TO \$159 ON MONDAY (SEPT. 2), BUT FELL BACK TO CLOSE AT \$157.50 ON THURSDAY, UP \$3 ON LAST THURSDAY'S CLOSE. UK OFFICIAL RESERVES ROSE BY \$162 MILLION IN AUGUST AND STOOD AT \$6.842 MILLION AT THE END OF THE MONTH. THE LATEST FINANCIAL TIMES SURVEY OF BUSINESS OPINION INDICATES THAT FEARS ABOUT THE IMPACT OF RISING COSTS AND CONTROLLED PRICES UP ON PROFIT MARGINS AND EARNING ON CAPITAL EMPLOYED ARE WIDESPREAD THROUGHOUT INDUSTRY. CAPITAL SPENDING BY MANUFACTURING INDUSTRY IN THE SECOND QUARTER FELL BY 2 PERCENT WHEN COMPARED WITH THE FIRST QUARTER BUT FOR THE FIRST SIX MONTHS WAS 5 PERCENT HIGHER THAN IN SECOND HALF 1973. INVENTORIES IN THE SECOND QUARTER SHOWED A RECOVERY TO END-1973 LEVELS AFTER THE FALL IN THE FIRST QUARTER DUE TO THE THREE-DAY WEEK. FINANCE HOUSES AND RETAILERS ADVANCED 216 MILLION POUNDS IN NEW INSTALLMENT CREDIT IN JULY, THE LARGEST MONTHLY TOTAL SO FAR THIS YEAR. BRITAIN'S TERMS OF TRADE CONTINUED TO IMPROVE IN JULY REACHING 76.7, ITS HIGHEST LEVEL SINCE JANUARY. END

1. STERLING TRADED SOMEWHAT ABOVE \$2.31 AGAINST THE DOLLAR THIS WEEK, FALLING TO A LOW OF \$2.3105 ON TUESDAY (SEPT. 3). THE POUND CLOSED AT \$2.3110 ON THURSDAY (SEPT. 5). IN SPITE OF THE WEAKENING OF STERLING AGAINST THE DOLLAR, IT HAS MAINTAINED ITS VALUE AGAINST OTHER MAJOR CURRENCIES WITH THE TRADE WEIGHTED DEVALUATION ONLY WIDENING TO 18.1 PERCENT ON TUESDAY, BUT NARROWING BACK TO 17.9 PERCENT ON THURSDAY. GOLD HAS ALSO BEEN RELATIVELY STABLE AROUND THE \$157 LEVEL THIS WEEK.

2. UK OFFICIAL RESERVES INCREASED BY \$162 MILLION IN AUGUST WHICH INCLUDED FURTHER PUBLIC SECTOR BORROWING OF \$125 MILLION. RESERVES AT THE END OF THE MONTH STOOD AT \$6,842 MILLION, THE HIGHEST LEVEL SINCE JUNE 1973. CONVERTED AT 1 POUND EQUALS \$2.89524 TOTAL RESERVES EQUAL 2,363 MILLION POUNDS AND CONVERTED AT ONE POUND EQUALS \$2.3167 (THE CLOSING MARKET RATE ON AUGUST 30) TOTAL RESERVES EQUAL 2,953 MILLION POUNDS.

3. THE LATEST FT MONTHLY SURVEY OF BUSINESS OPINION INDICATES INCREASING CONCERN ABOUT RISING COSTS AND PROFIT MARGINS WHICH HAS LED TO A FURTHER DECLINE IN INDUSTRIAL CONFIDENCE. EXPORT PROSPECTS CONTINUE TO BE THE ONE BRIGHT SPOT BUT PEOPLE ARE BEGINNING TO TAKE A MORE CAUTIOUS VIEW BECAUSE OF A FEAR OF LOSING PRICE COMPETITIVENESS AND DELIVERY PROBLEMS.

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4. CAPITAL EXPENDITURE BY MANUFACTURING INDUSTRY IN THE

SECOND QUARTER OF 1974 IS ESTIMATED TO HAVE BEEN 515 MILLION POUNDS (1970 PRICES, S.A.) ABOUT 2 PERCENT LOWER THAN IN THE FIRST QUARTER. INVESTMENT IN THE FIRST HALF OF 1974 WAS ABOUT 5 PERCENT HIGHER THAN IN THE SECOND HALF OF 1973 AND MORE THAN 11 PERCENT ABOVE THE LEVEL OF THE FIRST HALF.

5. MANUFACTURERS' INVENTORIES IN THE SECOND QUARTER OF 1974 ARE ESTIMATED TO HAVE RISEN BY ABOUT 100 MILLION POUNDS (1970 PRICES, S.A.). THE INVENTORIES TO OUTPUT INDEX WAS 94.6. ALTHOUGH LOWER THAN THAT FOR THE FIRST QUARTER, WHICH WAS UNUSUALLY HIGH OWING TO THE SHARP FALL IN OUTPUT, IT WAS HIGHER THAN IN 1973.

6. NEW INSTALLMENT CREDIT WAS UP BY 216 MILLION POUNDS (S.A.) IN JULY. COMPARING THE LATEST THREE MONTHS MAY-JULY WITH THE PRECEDING THREE MONTHS FEBRUARY-APRIL, THE INCREASE WAS 8 PERCENT.

7. THE UK TERMS OF TRADE IN JULY REFLECT THE LEVELLING OUT OF WORLD COMMODITY PRICES. THE FIGURES INDICATE THAT OIL PRICES HAVE NOW STOPPED BRINGING PRESSURE ON THE COST OF BRITIAN'S IMPORTS. IN JULY THE TERMS OF TRADE ROSE BY ONE POINT TO 76.7, THE HIGHEST LEVEL SINCE JANUARY. THE RISE IN THE INDEX IMPLIES A SHORT-TERM BENEFIT TO BRITIAN'S TRADE BALANCE, THOUGH ALSO INDICATING THAT, IN THE LONG-TERM, UK EXPORTS ARE BECOMING LESS COMPETITIVE.

8. THE FORWARD DISCOUNTS ON STERLING FLUCTUATED DURING THE WEEK BUT ALL NARROWED MARKEDLY ON THURSDAY (SEPT. 5).

| | 8/29 | 9/5 | CHANGE |
|----------|----------|----------|-----------|
| 1 MONTH | 0.15-1/2 | 0.07-1/2 | DOWN 0.08 |
| 3 MONTHS | 1.16-1/2 | 0.95-1/2 | DOWN 0.21 |

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6 MONTHS 3.25 2.95-1/2 DOWN 0.29-1/2

(ALL FIGURES IN CENTS)

9. LOCAL AUTHORITY DEPOSIT RATES NARROWED AT ONE MONTH AND THREE MONTHS BUT WIDENED SLIGHTLY AT SIX MONTHS OVER THE WEEK.

| | 8/28 | 9/5 | CHANGE |
|----------|--------|---------|-----------|
| 1 MONTH | 11-5/8 | 11-1/8 | DOWN 1/2 |
| 3 MONTHS | 12-5/8 | 12-9/16 | DOWN 1/16 |
| 6 MONTHS | 13-1/8 | 13-1/4 | UP 1/8 |

10. EURODOLLAR RATES GENERALLY NARROWED UNTIL WEDNESDAY (SEPT. 4) BUT WIDENED marginally ON THURSDAY (SEPT. 5).

| | 8/29 | 9/5 | CHANGE |
|---------|--------|---------|-----------|
| 1 MONTH | 12-7/8 | 12-5/16 | DOWN 9/16 |

3 MONTHS 13-7/8 13-3/8 DOWN 1/2

6 MONTHS 14-1/8 13-15/16 DOWN 3/16

11. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 11-3/4
PERCENT ON FRIDAY, SEPTEMBER 6, 1974. SOHM

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, TRADE, PETROLEUM, EXPORTS, POUND, FOREIGN EXCHANGE RATES, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 06 SEP 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974LONDON11510
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740248-0958
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740969/aaaacgip.tel
Line Count: 174
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 25 JUN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <25 JUN 2002 by maustmc>; APPROVED <27 JUN 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS-WEEK ENDING SEPTEMBER 6 BEGIN SUMMARY: THE POUND FELL TO \$2.3105 ON TUESDAY (SEPT.
TAGS: ECON, UK
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005